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TO AMEMBASSY PARIS NIACT IMMEDIATE

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NODIS

EYES ONLY FOR ROBINSON

FOLLOWING REPEAT MOSCOW 14596 ACTION SECSTATE DTD 11 OCT

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S E C R E T MOSCOW 14596

NODIS

DEPT PLEASE PASS UNDERSECRETARY ROBINSON IN PARIS

FROM ROBINSON

E.O. 11652 GDS

TAGS: ETRD, UR, US

SUBJECT: OIL/GRAIN NEGOTIATIONS

1. I HELD A FINAL MEETING WITH PATOLICHEV, KUZMIN AND GORDEYEV TODAY, SATURDAY, OCTOBER 11 AT 1220 PRIOR TO MY DEPARTURE AT 1620 THIS AFTERNOON. I WAS ACCOMPANIED BY AMBASSADOR STOESSEL AND FSO NILES FOR THESE DISCUSSIONS, WHICH LASTED ALMOST THREE HOURS. DETAILS OF DISCUSSIONS, PARTICULARLY ON PATOLICHEV'S COMMENTS, WILL BE REPORTED SEPTTEL.

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2. PATOLICHEV REACTED EMOTIONALLY TO MY SUMMARY PRESENTATION IN

STATE 242447. HE WAS MUCH MORE NEGATIVE AND STRONG THAN HE HAD BEEN PREVIOUSLY IN HIS PROTEST AGAINST OUR CONTINUING EFFORTS TO SQUEEZE HIM FOR AN OIL PRICE DISCOUNT. THE MOOD HAD CHANGED GREATLY FROM THE MORE CONCILIATORY ATTITUDE EVIDENCED IN OUR DISCUSSIONS LAST NIGHT (MOSCOW 14584). IT APPEARS THAT HIS CHANGE IN ATTITUDE RESULTED FROM THE FOLLOWING:

A. LAST NIGHT PATOLICHEV HAD ANTICIPATED RELEASE OF A FAVORABLE U.S. CROP REPORT AND HAD GIVEN IMPRESSION HE HAD EXPECTED LIFTING OF MORATORIUM ON EXPORTS ON THE USSR.

B. SUBSEQUENTLY, SOVIETS LEARNED THAT THE CROP REPORT HAD INDEED BEEN FAVORABLE, THAT THE MORATORIUM WAS BEING LIFTED ON EXPORTS TO POLAND BUT THAT THE U.S. WAS MAINTAINING MORATORIUM ON EXPORTS TO THE USSR.

C. THE SOVIETS RECOGNIZED THAT IT WAS BECOMING INCREASINGLY CLEAR TO THE REST OF THE WORLD THROUGH PUBLIC STATEMENTS IN WASHINGTON THAT WE WERE APPLYING PRESSURE (WHICH IN THEIR EYES WAS IMPROPER AND UNACCEPTABLE) BECAUSE OF THEIR REQUIREMENT FOR ADDITIONAL GRAIN SUPPLY.

D. THEY WERE ALSO INCENSED BY A PUBLIC STATEMENT BY SECRETARY BUTZ INDICATING THAT THE MORATORIUM ON EXPORTS TO THE USSR WAS BEING MAINTAINED BECAUSE WE HAD NOT AGREED ON ALL ASPECT OF A LONG TERM GRAIN AGREEMENT. (PATOLICHEV THREATENED AT ONE POINT TO RELEASE A PUBLIC STATEMENT DENOUNCING THIS AS FALSE INFORMATION, CITING THE ASSURANCE THAT I HAD GIVEN HIM EARLIER THAT WE NOW HAD RESOLVED ALL OF THE ISSUES IN THE GRAIN AGREEMENT.)

3. IT IS OUR VIEW THAT THE EVENTS OUTLINED IN PARA 2 ABOVE WERE EXPLANATION FOR PATOLICHEV'S BITTER PROTEST AGAINST THE U.S. POSITION AND WHAT THEY SEE AS OUR EFFORT TO BLACKMAIL THEM INTO ACCEPTING A DISCOUNT PRICE ON OIL.

4. I EXPLAINED THAT I WOULD BE DEPARTING MOSCOW AT 1620 TODAY FOR PARIS TO FULFILL A PREVIOUS COMMITMENT TO HEAD THE U.S. DELEGATION FOR THE PRODUCER/CONSUMER CONFERENCE WHICH WOULD COMMENCE ON MONDAY, OCTOBER 13. HOWEVER I INDICATED THAT THIS WOULD BE A BRIEF INTERRUPTION WHICH WOULD ALLOW THE SOVIETS TIME
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TO CONSIDER THE VARIOUS ALTERNATIVE MEANS FOR REDUCING THE DELIVERED PRICE ON OIL PURCHASED BY THE U.S. I ASSURED THEM THAT I WOULD BE RETURNING NOT LATER THAN WEDNESDAY OF NEXT WEEK, OCTOBER 15, READY TO MAKE EVERY EFFORT TO BRING OUR NEGOTIATIONS TO A SUCCESSFUL AND SPEEDY CONCLUSION.

5. I REASSURED PATOLICHEV THAT OUR PUBLIC STATEMENTS EXPLAINING MY DEPARTURE WOULD BE COUCHED IN POSITIVE TERMS STATING THAT WE

HAD MADE GOOD PROGRESS, BUT THAT I WOULD HAVE TO BE ABSENT FOR A FEW DAYS TO FULFILL MY COMMITMENT IN PARIS.

6. COMMENT AND RECOMMENDATIONS: AS A RESULT OF SOME TEN DAYS OF CONTINUOUS DISCUSSION WITH PATOLICHEV WHICH CULMINATED IN OUR EMOTIONAL ENCOUNTER WITH HIM TODAY, OUR CONSENSUS VIEW HERE IS THAT THE TACTICAL PLAN TO HOLD OUT FOR A 15 PERCENT OIL PRICE DISCOUNT (EVEN IN CONCEALED FORM) UNTIL WE RECONVENE O/A OCTOBER 15 IS UNLIKELY TO PRODUCE OUR DESIRED RESULT. IT IS CONCEIVABLE THAT BY APPLYING OUR MAXIMUM LEVERAGE ON THE SOVIETS THROUGH WITHHOLDING FURTHER GRAIN SALES WE COULD ACHIEVE A 15 PERCENT DISCOUNT IN THE OIL PRICE. HOWEVER, THIS APPEARS HIGHLY UNLIKELY FROM THIS VANTAGE POINT, AND, IF OBTAINED, IT COULD GENERATE SUCH AN ANTAGONISM ON THE PART OF THE SOVIETS AS TO CREATE SERIOUS PROBLEMS AND GREATER RESISTANCE TO FUTURE COOPERATIVE EFFORTS IN BOTH ECONOMIC AND POLITICAL FIELDS.

7. SUBJECT TO A CONTINUING REVIEW OF DEVELOPMENTS BETWEEN NOW AND OCTOBER 15 IT IS OUR FEELING THAT WE SHOULD PROCEED ON A TACTICAL PLAN AS FOLLOWS:

A. THROUGH HIGHEST LEVEL CONTACTS WE SHOULD ATTEMPT TO ACHIEVE A MUTUAL AGREEMENT ON AN OIL PRICE BELOW MARKET WHICH WOULD BE ACHIEVED THROUGH SHIPPING AND OTHER OIL PURCHASE TERMS. IN THIS EFFORT, WE WOULD CAUTION AGAINST ANTICIPATING ANYTHING OVER THE EQUIVALENT OF \$1 PER BARREL, INCLUDING THE SIGNIFICANT BENEFITS REFLECTED IN THE RECENTLY AGREED FREIGHT RATE ADJUSTMENT ON GRAIN. EVEN THIS LEVEL OF DISCOUNT MAY NOT BE OBTAINABLE IN THE FINAL ANALYSIS.

B. ASSUMING SUCH AN UNDERSTANDING IS REACHED, I SHOULD RETURN TO MOSCOW OCTOBER 15 FOR FURTHER DISCUSSION OF SPECIFIC FORMULATIONS THROUGH WHICH THIS UNDERSTANDING CAN BE EXPRESSED.

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C. WE SHOULD AVOID FURTHER EFFORTS TO ESTABLISH LEVEL OF DISCOUNT THROUGH MY NEGOTIATIONS WITH PATOLICHEV, WHICH APPEAR TO HAVE REACHED A DEAD END, WITHOUT HAVE REACHED PRIOR SOLUTION THROUGH INTERVENTION AT HIGHEST LEVEL. TO CHARGE THE BARRICADES ONCE AGAIN WOULD BE FRUITLESS AND ALMOST CERTAINLY COUNTER-PRODUCTIVE.

D. TO CONTINUE THE MORATORIUM ON GRAIN SALES TO THE USSR BEYOND OCTOBER 15 WILL INCREASE THE DIFFICULTY OF REACHING ANY ACCEPTABLE SOLUTION. THEREFORE, WE URGE THAT THAT DATE BE ESTABLISHED AS DEADLINE FOR REACHING FINAL RESOLUTION OF THIS MATTER ON BEST TERMS AVAILABLE BY THAT TIME.

E. ASSUMING THAT AN AGREEMENT HAS BEEN REACHED ON BASIS PROPOSED IN (C) ABOVE, I SHOULD RETURN TO MOSCOW WITH AUTHORIZATION TO SIGN

LONG-TERM GRAIN AGREEMENT AND LETTER OF INTENT ON OIL ON BASIS DESCRIBED IN MOSCOW 14584, PARA 10. THIS COULD GO FAR TO OFF-SET SERIOUS DAMAGE TO U.S.-SOVIET RELATIONS THREATENED BY OUR TOUGH (AND IN SOVIET EYES, UNACCEPTABLE) DEMANDS TO DATE.

8. I AM PREPARED TO GO TO THE BRINK AND BEYOND IN THESE NEGOTIATIONS IF THAT IS WASHINGTON'S DECISION, BUT NOT WITHOUT HAVING FIRST FOREWARNED YOU OF MY SERIOUS RESERVATIONS REGARDING OUR PRESENT NEGOTIATING TACTICS. I APPRECIATE THE TENDENCY TO LOSE ONE'S OBJECTIVITY THROUGH CONTINUED EXPOSURE TO TOUGH, EMOTIONAL REACTIONS IN NEGOTIATIONS OF THIS TYPE. HOWEVER, I WOULD BE NEGLIGENT IN THE PERFORMANCE OF MY TASK, AS I VIEW IT, IF I FAILED TO EXPRESS MY VERY SERIOUS CONCERN OVER OUR APPARENT LACK OF SENSITIVITY TO THE SOVIET POSITION. I AM NOT URGING COMPASSION FOR THE SOVIETS BUT RATHER A REALISTIC APPRAISAL OF WHAT WE CAN ACCOMPLISH IN BOTH POLITICAL AND ECONOMIC TERMS IN THESE NEGOTIATIONS.

9. WE URGED PATOLICHEV NOT TO PROCEED AS HE THREATENED AND MAKE A STRONG PUBLIC STATEMENT, WHICH WE ARGUED COULD JEOPARDIZE COURSE OF OUR NEGOTIATIONS. I ASSURED HIM THAT ON OUR SIDE WE WOULD COUNSEL WASHINGTON TO AVOID STATEMENTS WHICH MIGHT COMPOUND OUR EXISTING DIFFICULTIES. I STRONGLY RECOMMEND THAT WE DO WHATEVER POSSIBLE TO MINIMIZE FURTHER STATEMENTS BY U.S. OFFICIALS ON GRAIN AND OIL NEGOTIATIONS, WHICH CAN ONLY COMPLICATE FURTHER NEGOTIATION. STOESSSEL UNQTE KISSINGER

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